



ACANTO | LLC  
ADAPTIVE ASSET MANAGEMENT

# **An Institutional Framework for Tactical Asset Allocation**

*Academic Validation and Empirical Analysis of the Acanto Adaptive All Asset 8 (8A) Strategy*

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February 2026

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Performance data shown prior to November 1, 2021, represents hypothetical backtested results, not actual trading. Backtested performance has inherent limitations: it is prepared with the benefit of hindsight, does not reflect the impact of material economic and market factors on decision-making, and does not involve financial risk. Actual returns may differ significantly from hypothetical results. Past performance—whether actual or hypothetical—is no guarantee of future results.

## Live Performance & Fee Assumptions

Performance data shown from November 1, 2021, to present represents live strategy tracking. This data is unaudited and is believed to be accurate but is not guaranteed. All performance results presented are GROSS OF FEES unless otherwise stated. An investor's actual return will be reduced by the advisory fees and any other expenses (such as custodial fees) that may be incurred in the management of the account. For example, if an account returns 10% gross and pays a 1% advisory fee, the net return would be approximately 9%.

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# 2022 Exposed the Fundamental Flaw of Static Allocation

Correlations are regime-dependent: they break down when diversification is needed most.

## Simultaneous Declines

For the first time in modern history, both stocks (-18%) and bonds (-31%) crashed together.

## Diversification Failure

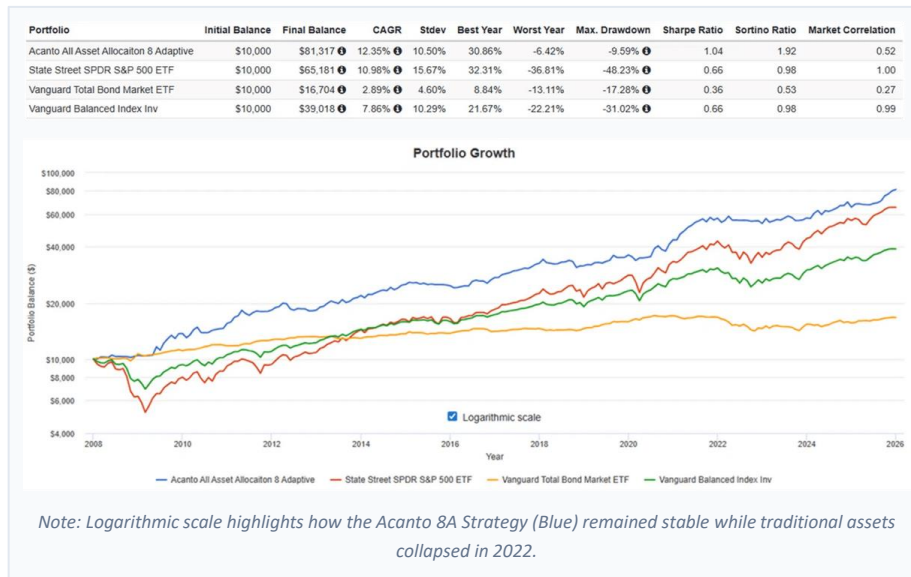
The 60/40 portfolio suffered its worst performance in 90 years as negative correlation vanished.

## "All Weather" Failure

Even sophisticated risk parity funds (e.g., Dalio's All Weather) lost ~20% due to high fixed bond exposure.

## Retirement Crisis

Target date funds for 2030 retirees lost 15-20%, forcing delayed retirements.



## Long-Term Treasuries (TLT)

**-31%**

The "safe haven" asset class collapsed in 2022.

# The Acanto 8A Strategy is Correlation-Agnostic by Design

A rules-based framework that combines momentum for asset selection with dynamic risk parity for position sizing.

## 1. Momentum-Based Asset Selection

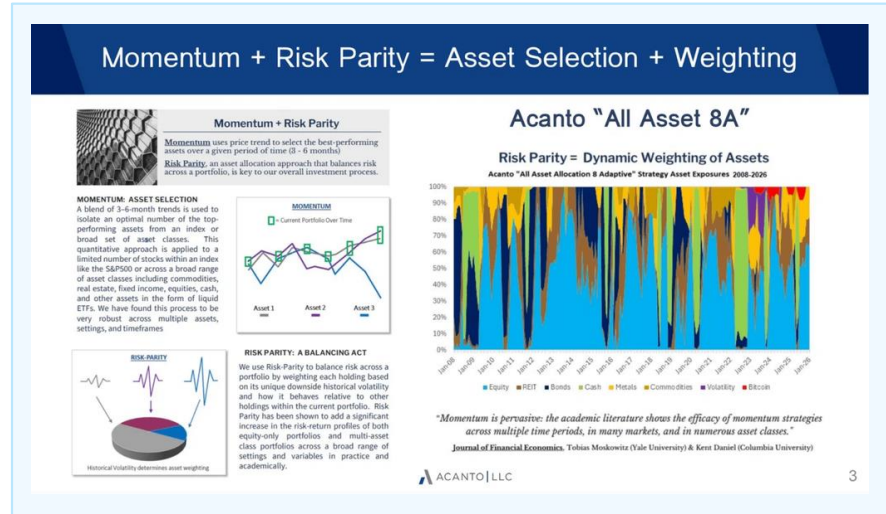
The strategy evaluates a global universe monthly (Equities, Bonds, Commodities, REITs, Gold, Bitcoin, Volatility) and selects the **top 8 trending assets**. It rotates out of falling assets and into winners.

## 2. Dynamic Risk Parity Sizing

Positions are sized based on **short-term (2-month) volatility**, not long-term averages or fixed weighting. This ensures risk is managed based on the current regime.

## Result: Rapid Adaptation

Monthly rebalancing allows the portfolio to pivot quickly.



# Momentum is the "Premier Anomaly" with 200+ Years of Evidence\*

Cross-asset momentum is one of the most robust and persistent market anomalies documented.

## Jegadeesh & Titman (1993)

*"Returns to Buying Winners and Selling Losers"*

Buying past winners and selling losers generates significant excess returns that are not explained by standard risk factors.

Journal of Finance

## Moskowitz, Ooi & Pedersen (2012)

*"Time Series Momentum"*

Demonstrated material momentum premiums across asset classes — **58 instruments** across equities, bonds, currencies, and commodities.

Journal of Financial Economics

## Gray & Vogel (2016)

*"Quantitative Momentum"*

Practitioner evidence points to an **intermediate-term (3–12 month)** lookback as an effective period to capture momentum.

Wiley Finance

## Behavioral Foundation

*Kahneman, Tversky, et al.*

Momentum endures due to behavioral biases — underreaction to new information and the disposition effect.

Why it Persists

\* "Two Centuries of Price Momentum" by Christopher Geczy and Mikhail Samonov (2016).

# Institutional Constraints Prevent Large Managers from Exploiting Momentum

Career risk and benchmark constraints create structural limits to arbitrage.

**"Limits to Arbitrage" (Shleifer & Vishny, 1997):** Professional fund managers face frictions that prevent significant benchmark deviation, helping explain persistent momentum.



## 1. Career Risk

Managers tracked to benchmarks avoid large tracking error. Short-term underperformance can prompt redemptions and job loss, limiting bold momentum bets.



## 2. Rigid Mandates

Mandates and style-box constraints restrict tactical shifts across asset classes, preventing the broad rotations some momentum approaches require.



## 3. Whipsaw Intolerance

Momentum can incur short-term whipsaws in choppy markets. Such losses are hard to justify to committees, so managers often abandon the strategy.

**The Acanto 8A strategy is designed to exploit inefficiencies that large institutions cannot capture due to these structural constraints.**

# Dynamic Allocation Adapts to Regime Changes

Academic research confirms that market behavior switches between regimes, requiring adaptive rather than static allocation.

## The Academic Reality

Ang & Bekaert (2003), NBER Working Paper

Research demonstrates that markets are not static but switch between distinct **regimes** (e.g., low volatility/bull vs. high volatility/bear).

**The Failure Mode:** Traditional portfolios (like 60/40) assume a single, stable regime. When the regime shifts—as seen in the 2022 transition to high inflation—these static correlations break down.

## The Validated Solution

Journal of Investment Strategies (2022)

Peer-reviewed study found that applying a **momentum-based rebalancing overlay** to risk parity significantly improves performance.

**The Acanto Approach:** The strategy does not attempt to *predict* the next regime. Instead, by rebalancing monthly based on momentum, it automatically **adapts** to the prevailing regime as it emerges.

## Institutional Implication

The 8A strategy's dynamic framework is not just a reaction to 2022, but the implementation of an approach long advocated by academic research to deal with the reality of changing market regimes.

# Empirical Performance Analysis

## Backtest + Live Performance since 11-1-2021 (Linear Scale)

Portfolio	Initial Balance	Final Balance	CAGR	Stdev	Best Year	Worst Year	Max. Drawdown	Sharpe Ratio	Sortino Ratio	Market Correlation
Acanto All Asset Allocation 8 Adaptive	\$10,000	\$81,317	12.35%	10.50%	30.86%	-6.42%	-9.59%	1.04	1.92	0.52
SPDR S&P 500 ETF	\$10,000	\$65,181	10.98%	15.67%	32.31%	-36.81%	-48.23%	0.66	0.98	1.00
Vanguard Total Bond Market ETF	\$10,000	\$16,704	2.89%	4.60%	8.84%	-13.11%	-17.28%	0.36	0.53	0.27
Vanguard Balanced Index Inv	\$10,000	\$39,018	7.86%	10.29%	21.67%	-22.21%	-31.02%	0.66	0.98	0.99

### Portfolio Growth



# Empirical Performance Analysis

## Backtest + Live Performance since 11-1-2021 (Logarithmic Scale)

Portfolio	Initial Balance	Final Balance	CAGR	Stddev	Best Year	Worst Year	Max. Drawdown	Sharpe Ratio	Sortino Ratio	Market Correlation
Acanto All Asset Allocation 8 Adaptive	\$10,000	\$81,317 <span>📈</span>	12.35% <span>📈</span>	10.50%	30.86%	-6.42%	-9.59% <span>📉</span>	1.04	1.92	0.52
State Street SPDR S&P 500 ETF	\$10,000	\$65,181 <span>📈</span>	10.98% <span>📈</span>	15.67%	32.31%	-36.81%	-48.23% <span>📉</span>	0.66	0.98	1.00
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# Dynamic Asset Allocation in Practice

The portfolio composition is never static—it reflects the current opportunity set, not historical assumptions.

## 2008-2009 (GFC)

Strategy reduced equity exposure significantly, rotating into bonds and cash to preserve capital during the crash.

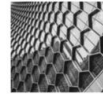
## 2020 (COVID-19)

Quickly identified the recovery trend, rotating back into growth assets as momentum re-emerged.

## 2022 (Regime Shift)

Crucial divergence: As stocks and bonds fell, the strategy rotated into commodities, energy, and alternatives—assets with positive momentum in an inflationary regime.

## Momentum + Risk Parity = Asset Selection + Weighting



### Momentum + Risk Parity

**Momentum** uses price trend to select the best-performing assets over a given period of time (3 - 6 months)

**Risk Parity**: an asset allocation approach that balances risk across a portfolio, is key to our overall investment process.

### MOMENTUM: ASSET SELECTION

A blend of 3-6-month trends is used to isolate an optimal number of the top-performing assets from an index or broad set of asset classes. This quantitative approach is applied to a limited number of stocks within an index like the S&P500 or across a broad range of asset classes including commodities, real estate, fixed income, equities, cash, and other assets in the form of liquid ETFs. We have found this process to be very robust across multiple assets, settings, and timeframes



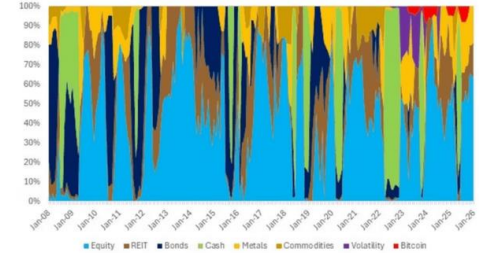
### RISK-PARITY: A BALANCING ACT

We use Risk-Parity to balance risk across a portfolio by weighting each holding based on its unique downside historical volatility and how it behaves relative to other holdings within the current portfolio. Risk Parity has been shown to add a significant increase in the risk-return profiles of both equity-only portfolios and multi-asset class portfolios across a broad range of settings and variables in practice and academically.

## Acanto "All Asset 8A"

### Risk Parity = Dynamic Weighting of Assets

Acanto "All Asset Allocation & Adaptive" Strategy Asset Exposures 2008-2026



"Momentum is pervasive: the academic literature shows the efficacy of momentum strategies across multiple time periods, in many markets, and in numerous asset classes."

Journal of Financial Economics, Tobias Moskowitz (Yale University) & Kent Daniel (Columbia University)

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Historical Asset Exposures (2008-2026): The colorful "stacked area" chart illustrates the continuous rotation of asset classes.

# Risks and Limitations (A Balanced Assessment)

No strategy is without risk—a comprehensive institutional review requires acknowledging potential drawbacks.



## 1. Tracking Error & Benchmark Deviation

Designed for absolute returns, not benchmark tracking. Will deviate significantly from equity indices during strong, narrow bull markets.



## 2. Whipsaws

Momentum strategies can suffer in choppy, range-bound markets where trends fail to materialize or reverse quickly.



## 3. Transaction Costs

Monthly rebalancing incurs higher trading costs than buy-and-hold, though liquid ETFs mitigate this impact.



## 4. Tax Inefficiency

Generates short-term capital gains. Most appropriate for tax-qualified accounts (401k, IRA) or where drawdown management is primary.



## 5. Model Risk

While momentum has persisted for over a century, there is no guarantee that historical relationships will continue in the same form.

## Institutional Implication

These risks are the expected trade-offs for significant downside protection and regime adaptability.

The strategy is designed for investors who prioritize **capital preservation** and **risk-adjusted returns** over short-term benchmark tracking.

"Innovation requires accepting different risks to achieve different results."

# The Institutional Value Proposition

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A compelling, academically-grounded solution for tactical asset allocation in modern markets.

- ❑ **Built on Evidence, Not Forecasts**  
The strategy does not rely on predicting economic futures or assuming stable correlations—it simply follows what is working now.
- ❑ **Mitigates Catastrophic Drawdown**  
Designed to avoid the severe portfolio declines that destroy long-term wealth compounding (e.g., -9.59% for “8A” vs -48% for S&P 500).
- ❑ **Grounded in Peer-Reviewed Research**  
Every component is validated by decades of academic study from Nobel laureates and top-tier financial journals.
- ❑ **Exploits Structural Inefficiencies**  
Captures the momentum premium that career risk and institutional constraints prevent large managers from exploiting effectively.
- ❑ **Addresses the Post-2022 Reality**  
Provides a robust alternative to static, correlation-dependent portfolios that fail during regime changes.

## Institutional Applications

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- 📊 **Tactical Overlay** for traditional static portfolios to reduce volatility.
- 🛡️ **Core Allocation** for tax-qualified retirement accounts focused on preservation.
- ↔️ **Alternative** to static risk parity and target date funds.
- 📈 **Diversifying Strategy** for multi-manager platforms seeking non-correlated returns.

# Academic Foundation Summary

The Acanto 8A strategy is a synthesis of rigorously tested academic principles.

Strategy Component	Core Concept	Key Academic Citation	Empirical Validation
<b>Momentum Selection</b>	Buying winners and selling losers generates excess returns.	<i>Jegadeesh &amp; Titman (1993) Journal of Finance</i>	Momentum is the "premier market anomaly" that persists across decades and is not explained by risk.
<b>Cross-Asset Scope</b>	Momentum works everywhere, not just in stocks.	<i>Moskowitz, Ooi &amp; Pedersen (2012) Journal of Financial Economics</i>	Found significant momentum premiums in <b>58 different asset classes</b> globally.
<b>Lookback Period</b>	Intermediate-term (3-12m) is the optimal signal.	<i>Gray &amp; Vogel (2016) "Quantitative Momentum"</i>	Validates the specific timeframe used by 8A as the most robust predictor of future returns.
<b>Regime Adaptation</b>	Correlations are not static; they shift with regimes.	<i>Ang &amp; Bekaert (2003)NBER Working Paper</i>	Proves that static allocation fails during regime shifts (like 2022), necessitating dynamic adjustment.
<b>Momentum + Risk Parity</b>	Combining trend with volatility sizing improves Sharpe.	<i>Journal of Investment Strategies (2022) Vol. 11, No. 1</i>	Applying momentum overlays to risk parity portfolios significantly enhances risk-adjusted returns.

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## **Comparative Benchmarks**

Indices are shown for comparison only; they are unmanaged and not directly investable.



## Contact Information

For institutional inquiries, due diligence materials, or access to the strategy data room.

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